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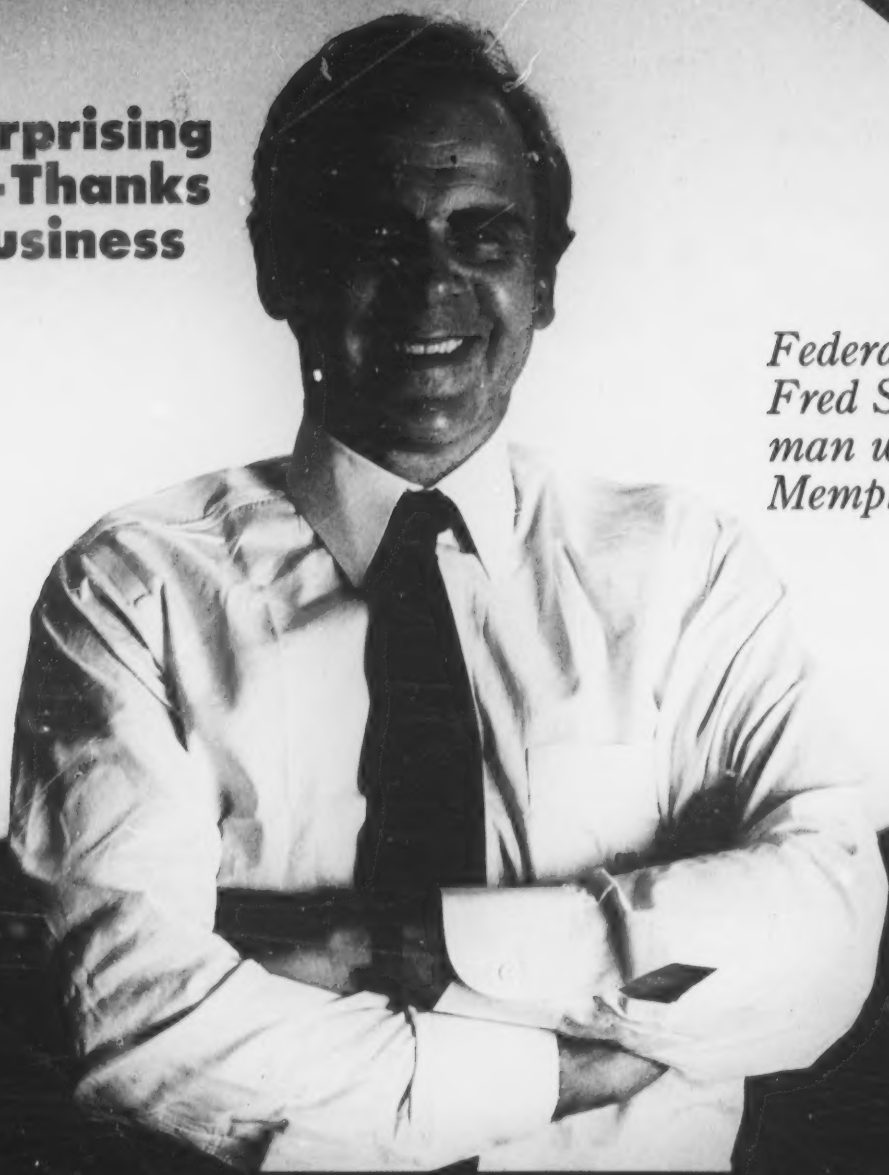
FORTUNE

WHERE AMERICA IS BOOMING

**In Some Surprising
Hot Spots—Thanks
to Smart Business
Leaders**



*Federal Express's
Fred Smith, the
man who made
Memphis fly*



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FORTUNE



"Memphis now realizes that it is potentially just as great as Dallas or Atlanta."

PAGE 30



"Being an air controller is not the greatest training for being a manager."

PAGE 54



"So he paid a lot. He did it for his kids, for the prestige, for the franchise."

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If warnings by the Surgeon General were all the cigarette industry had to fear, it could just exhale and relax.

PAGE 70



"When two wheels are off the cliff, we start getting careful. With one wheel off, we step on the gas."

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"To my eyes the Japanese are 20 years behind."

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Growing Pains in the Sunshine State 40

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by Alex Taylor III

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by Walter Kiechel III

Cover: Federal Express CEO Frederick W. Smith was photographed on top of his Memphis headquarters by George Lange.



CORPORATE FINANCE ASSET MANAGEMENT AND INVESTMENT BANKING

IMI is the leader in Italian corporate finance, specializing in medium and long-term credit. The IMI Group is also a leader in merchant banking, personal financial services and asset management. Because of this, our clients can take advantage of a unique combination of corporate financial services of the highest quality (including commercial banking, security and equity investment and capital market

Consolidated Highlights at March 31, 1987

(Dollars in millions)

Outstanding loans	21,959
Assets under management	18,538
Shareholders' equity	2,940
Allowances for losses	562
Net income	465

(1 U.S. \$ = 1,286.9 lire)

services).

In establishing its presence in the international markets the IMI Group has formed merchant banking subsidiaries in the United Kingdom - IMI Capital Markets (UK) Ltd. - and in the United States - IMI Capital Markets USA Corp. These subsidiaries, as well as a range of other subsidiaries, are controlled by IMI International S.A., Luxembourg (whose capital amounts to \$ 250 million).

ISTITUTO MOBILIARE ITALIANO

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LETTERS

sions. It looks like the company's stockholders, not the rate payers, will be saddled with the \$25-million costs for the year.

BARRY R. PHEGAN
President, Meridian Group
Consultants to Management
Berkeley, California

Doing Business in China

I was surprised and disappointed to read Louis Kraar's article "The China Bubble Bursts" (July 6). I spent considerable time with Mr. Kraar talking about the many positive things that are happening at American Motors' joint venture in China, Beijing Jeep Corp. (BJC). I explained that since our meeting in May 1986 with senior Chinese government leaders, all major and most minor problems had been resolved and BJC is now a very successful joint venture. To describe it as "a long-running horror show" is not accurate.

DON ST. PIERRE
President, Beijing Jeep Corp.
Beijing

FORTUNE quoted Don St. Pierre extensively about the past troubles and present triumphs at BJC. The phrase he complains of appeared in a picture caption and was justified by his own account of what went on before he appeared on the scene.

Correction

In FORTUNE's Service 500 (June 8), Pacific Mutual Life's increase in life insurance in force should have been \$3,742,570,000. **D**

Address letters to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Letters may be edited for purposes of clarity or space.

INVESTOR'S SNAPSHOTS

EXPLANATORY NOTES

SALES in the Investor's Snapshots elsewhere in the magazine exclude excise taxes. Instead of sales, assets are shown for commercial banking companies, diversified financial companies, life insurance companies, and utilities, and operating revenues for transportation companies.

NET PROFIT includes any extraordinary items. Where applicable, sales and net profit for past quarters are restated to reflect mergers, acquisitions, or divestitures.

RETURN ON COMMON STOCKHOLDERS' EQUITY is calculated for the latest four quarters after subtracting dividends paid on preferred stock from net income. The five-year average is based on the last five full fiscal years.

PRICE/EARNINGS RATIO is based on earnings per share for the latest four quarters.

TOTAL RETURN TO INVESTORS includes stock price changes and assumes dividends are reinvested on the date paid.

THE ECONOMY

GROWING PAINS IN THE SUNSHINE STATE

Florida's service economy is bubbling, and its swelling population is younger than you think. But all those people are putting a severe strain on the budget. ■ *by Alex Taylor III*

ERRY VALENTE



SUN AND FUN are two variables that do not ordinarily figure in economic computations. Yet they are key ingredients in the growth of the U.S.'s fourth-largest state. Thanks largely to its well-known climate and ambiance, Florida is adding new residents at the rate of 300,000 a year, making it the fastest growing of the ten major states. Only California, Texas, and New York, in that order, now have populations bigger than Florida's 12 million. And by the year 2000, Florida will have overtaken New York. Charles J. Zwick, chairman of Miami's Southeast Bank, boasts: "New York is losing people, Texas has its problems, and in California dry rot has set in. This is the best growth area in the U.S."

Most of Florida's new residents are relatively well-to-do. The older migrants come bearing capital gains from the house they sold back home, plus a pension and a Social Security check. "We get the wealthy who can afford to move and the healthy who are able to move," says economist Henry Fishkind of M.G. Lewis & Co., an Orlando investment firm. As a result, per capita personal income is growing almost 50% faster than the national average. Once they have unpacked, these newcomers demand services. Over the past four years the state has added 920,000 jobs, nearly twice the national average and second only to California. When the National Basketball Association decided in April to award its first new franchises in seven years, two teams were given to Florida, the Orlando Magic and the Miami Heat, and two more to the other 49 states.

Such a sonic boom is tough on a state. Today Florida suffers from overburdened highways, overcrowded schools, inadequate

God gets a little help making a tree in Tampa Palms, a 9,000-acre housing development north of Tampa, where homes in the \$60,000 to \$1-million range are selling out.

social spending, and potentially perilous shortages of fresh water and facilities for sewage treatment. Moreover, residents display no noticeable sense of urgency about dealing with the state's problems. "We have all heard complaints about lack of infrastructure, but nothing has happened," says real estate developer Kenneth M. Good of Tampa. "If you don't plan for growth, it doesn't matter, because it is going to come anyway." Indeed, immigrants keep trekking across the state border at the rate of 893 per day.

To understand why so many people are moving to Florida, think of it as Texas with water or California without affectations. Floridians enjoy an easy-going, outdoor-oriented life, in which softball, swimming pools, and boats play an outsize role. Air conditioning tames the fierce summer heat, and the winters are temperate. Some 85% of the residents live within 20 miles of either the Atlantic Ocean or the Gulf of Mexico. While Florida still has half again as many oldsters as the average state—18.5% of the population is over 65—it is getting a vigorous influx of younger people. Those aged 25 to 44 represent 30% of the immigrants.

Living is cheap. Florida is the second-largest state east of the Mississippi River after Georgia, and land is abundant and inexpensive. Houses with two bedrooms are available for less than \$70,000, and \$140,000 buys a comfortable three-bedroom ranch with a swimming pool in the backyard. The constitution bans a state income tax. Estate taxes are among the lowest in the U.S. But the 5% sales tax has been extended to services including national advertising and, as a result, the tax is raising more ruckus than revenue (\$770 million expected in fiscal 1988).

Opportunities are plentiful. While the rest of the U.S. economy has just chugged along at an annual growth rate of 3.3% since 1982, Florida has hummed at 5.45%. Says Michael R. Reeves, president of a Tampa plumbing concern: "With people moving in, there is a need for more homes, offices, and malls to take care of all their needs. If you want to get out there and hustle, you can make it." Reeves knows. After growing up in Tampa's housing projects, he started his own plumbing company six years ago with a \$600 stake. Now he has ten employees and expects his revenues to hit \$500,000 this year.

REPORTER ASSOCIATE *Darlene L. Dennis*



The sunny Orlando economy helped Newton Kindlund build a \$27-million-a-year business in nine years.

Entrepreneurs like Reeves abound, and Florida ranks first in new business starts. In the late 1960s, Newton C. Kindlund, 47, headed south for Orlando from Lansing, Michigan, to make a fresh beginning. He went broke with his first business, making custom motor homes. But he got in gear when he bought a recreational-vehicle dealership in 1978. "RVs are a 12-month-a-year business here, compared with only a few months a year up north," says Kindlund. "Central Florida is a big reason for my success." This year he expects to gross \$27 million, up 30% from 1986.

FLORIDA'S VITALITY is at its most vigorous in Orlando. Located halfway down the peninsula, Orlando is the state's fourth-largest metropolitan area and its fastest-growing one. Though the population increased 4.7% last year, to 914,000, the number of available jobs jumped 7.7%—more than twice the national average. Orlandoans, as they call themselves, are proud of their growing laser instrument industry and Martin Marietta's aerospace operations. But the real spur to the area's growth has been Huey, Dewey, Louie, and the rest of the gang at Walt Disney World, which opened 20 miles away in 1971. Disney has boosted ticket prices three times in the

past 12 months to \$26 per day without making a noticeable impact on the theme park's popularity. On Orlando acreage that is twice the size of Manhattan, Disney is building two separate parks: Typhoon Lagoon, with water rides, and a movie studio where tourists can watch films being made.

Owing to Disney and such competing parks as Sea World and Boardwalk and Baseball, both owned by Harcourt Brace Jovanovich, Orlando has captured an enormous amount of vacation and convention travel. The country's 46th-largest metro area, it has nearly 60,000 hotel rooms, behind only New York and Los Angeles. So far in 1987 the hotels have been 87% filled, vs. an industry norm of 64%. The Orlando airport, which was designed to handle 12 million passengers by 1990, passed that mark in 1986 and is now embarked on an ambitious expansion.

Landlocked Orlando is unique among Florida's growth areas. More typical is Tampa-St. Petersburg-Clearwater on the Gulf Coast, one hour's drive to the west and the largest metropolitan area in the state, with a population of 1.9 million. The location of Florida's busiest port, television's Home Shopping Network, and a Busch Gardens amusement park, the Tampa area is drawing service firms and light manufacturing. A study by Cushman & Wakefield, a commercial real estate firm, ranked Tampa third in the U.S. as chief executive officers' choice of an office address, especially for its pro-business climate and access to raw materials (Atlanta and San Diego were first and second).

Residents speak of Tampa as "the next great city." Couples queue up for tract houses in developments like Tampa Palms, a 9,000-acre project built on filled-in marshland, where houses cost \$60,000 to \$1 million and neighborhoods have names like Cambridge, Canterbury, and Coventry. Developer Kenneth Good is typical of the enthusiastic, pro-growth local sentiment. "What's happening here is like what happened to Dallas. In ten years you won't be able to recognize Tampa." The area is expected to add 397,600 new jobs by the year 2000, more than either Philadelphia or San Francisco.

Most of those jobs will come in two of Florida's biggest businesses, real estate and tourism. Floridians like to tout the state's nascent capabilities as a manufacturing center, especially in high technology. But while good-paying factory jobs are growing in ab-

THE ECONOMY

solute numbers, they are shrinking as a percentage of the state's work force. "We are the king of low-paid, tourist-related service and retail jobs," says economist Henry Fish-kind. "Our factories are hotels and condos, and our factory workers work there."

Only 11.3% of Florida's wage earners hold jobs in real factories, vs. 19.4% for the rest of the U.S. Though Florida is a right-to-work state with an average wage of \$8.02, nearly \$1 an hour less than elsewhere in the country, its remote location and a shortage of natural resources make it an improbable site for anything but light assembly of such products as electronics and aerospace components. Says Florida Commerce Department Secretary Jeb Bush, son of Vice President George Bush: "Some industry needs to be centrally located. We're not going to get auto plants to locate in Florida." While high-tech employment is growing and Florida ranks sixth in the nation for these jobs, firms tend to do their research and development work outside the state. One reason is that Florida's university system, long starved for tax money, is widely viewed as substandard.

The state is just developing as a back of-

fice for businesses such as banking, finance, and insurance that generate jobs for programmers and computer operators rather than for busboys and housekeepers. Citibank, J. Walter Thompson, and Time Inc., publisher of FORTUNE, all have located data processing centers in Tampa. Fort Lauderdale, on the Atlantic Ocean side of the state, has become known as the Heavy Metal Coast because that's where American Express processes chits from gold and platinum cardholders. But corporate headquarters have been slow to follow the computers. Only seven FORTUNE 500 companies are based in the state; by comparison, eight are in St. Louis, which has one-thirtieth the population of Florida.

No one comes to Florida for the picturesque countryside. It is swampy and pancake flat. Take an elevator to the 36th floor of an office building in Miami (there are four that high) and you are at the steepest point on the physical landscape. Much of the land is saturated with water and has to be drained and filled before it can be built upon. The resulting disruption of the ecology helps breed an exotic population of in-

sects that includes fire ants, Medflies, and flying cockroaches.

The state's panhandle shape divides Florida politically and socially. Residents of the northern part, known as "porkchops," associate with neighboring Alabama and Georgia more than with South Florida, home to the snowbirds and retirees. A mixture of backgrounds and races creates what *The Almanac of American Politics* calls "especially chaotic and unstable politics." Florida's blacks, 14% of the population, have been outdistanced economically by the Cubans, who are far more successful at capitalism. In Miami's Dade County, where 43% of the residents are Cuban, more than 400 have risen to vice presidencies or above in the city's 71 banks.

Florida did not begin to attract settlers until the late 19th century, and as recently as 1950 it was only the 20th-largest state. It still has some growing up to do. It ranks high in alcohol consumption, moonshine seized, and UFO sightings. In the past the freewheeling business climate has made it a petri dish for fraud. Florida has been a hotbed of stock swindlers, and only two years ago E.S.M. Government Securities, a Fort Lauderdale securities broker, collapsed, owing customers about \$320 million. Its officers were indicted for conspiracy and mail fraud. Florida real estate salesmen rank with used-car dealers as symbols of mendacity. Tales of underwater building lots, flimsy high-rise condominiums, and high-pressure sales tactics are part of the state's lore.

REAL ESTATE SPECULATION—of the legal kind—seems to be second nature to Floridians. A spurt of office and retail construction has produced vacancy rates averaging 24% in the state's six largest cities, about eight percentage points above the national average. In suburban Boca Raton, north of Miami, the commercial vacancy rate is a stunning 39.6%. Florida has suffered several real estate shocks, most recently in the early 1980s, when homeowners just mailed their keys to the bank as their balloon mortgages came due, and developers, stretched tighter than the skins of their high-rise condominiums, went broke. This time nobody seems alarmed. The empty buildings are regarded merely as excess inventory that will be quickly absorbed.

But serious overbuilding may be afflicting Miami, Florida's second-largest metro area, where more than a quarter of the office space is currently vacant. The oceanfront is dotted with empty apartments. Unfortunately, Mi-

COMPARABLE COSTS OF CITY LIVING

	NEW YORK	CHICAGO	DETROIT	TAMPA	ORLANDO
STATE TAXES (incl. city and county)					
Sales	8.25%	8.0%	4.0%	5.0%	5.0%
Income	2.0%-13.5%	2.5%	4.6%	none	none
Gasoline (per gal.)	\$0.08	\$0.13	\$0.15	\$0.10	\$0.10
Cigarettes (per pack)	\$0.21	\$0.20	\$0.21	\$0.21	\$0.21
Alcohol (per gal.)	\$4.09	\$2.00	none	\$6.50	\$6.50
ENERGY					
Electricity (per 500 kwh)	\$60.25	\$45.11	\$44.25	\$38.00	\$37.08
Fuel oil (per gal.)	\$0.91	\$0.88	\$0.91	\$1.01	\$0.99
Natural gas (per 40 therms)	\$33.27	\$20.25	\$27.63	\$20.15	\$20.15
Gasoline (pump price per gal.)	\$0.99	\$1.10	\$0.87	\$0.86	\$0.81
HOUSING					
Average rent, one-bedroom apartment	\$1,300 (Manhattan)	\$700	\$415	\$300	\$339
Median price, existing single-family home	\$169,400	\$85,700	\$64,300	\$59,800	\$73,600

No Charge for the Sunshine Either

Taxes and housing in Florida are bargains for residents of New York, Chicago, and Detroit, who make up the bulk of the state's immigrants. Energy savings are smaller, but who needs heat?

THE ECONOMY

ami has a number of other problems that other Florida cities do not share. Because of its large Hispanic population, its position as the leading financial and trading center for Latin America, and reputation for hip international culture, it is sometimes described as the city of the future. But Miami is still having trouble coping with the present. When some Latin economies sagged along with oil prices, so did Miami's, and now its labor force is growing only one-quarter as fast as Orlando's. The attractions of Orlando and Tampa have siphoned off tourism. Publicity about crime, especially drug trafficking, lures neither visitors nor settlers. In 1986 the Miami division of the Drug Enforcement Administration seized 72% of the cocaine confiscated nationwide. Cushman & Wakefield ranks the city's business climate as one of the worst.

Miami appears to be the one bruise on an

otherwise glorious orange. Planners are projecting giddy growth for Florida well into the next millennium. The number of jobs is forecast to grow 60% by the year 2000. Booms, of course, do not last forever. California's growth slowed when the state imposed strict land-use laws; Texas's fortunes took a dive when oil prices tumbled. What could deflate Florida's rise?

HIGH ON THE LIST is a spike in oil prices. Tourism slumped noticeably in 1982 when the price of oil peaked. A second surge would shut down recreational travel and dampen the tourist economy on which the state so heavily depends. Another obstacle would be a spurt in interest rates. Northerners planning to head south would have a harder time selling their homes and would find Flor-

ida residences more expensive to support.

Probably the biggest barrier to Florida's bright future is Florida itself. After having sold itself cheap to attract residents, it now finds itself with a huge bill coming due. George M. Steinbrenner III, better known for firing managers of his New York Yankees than as chairman of American Ship Building, located in Tampa, is one of the few worriers. "I look at Florida like a Norman Rockwell drawing. It is the kid who grows too fast—whose pants are too short and whose shirt is popping open across his chest," says Steinbrenner, who moved to the state from Cleveland 13 years ago. "We have had too much too soon; gone too far too fast. We could wake up in the next decade and say to ourselves, 'My God! What happened?'"

A committee composed of business and political leaders and chaired by Southeast Bank Chairman Zwick reported in February that Florida has "jammed highways, polluted natural resources, struggling schools, poorly paid teachers, teeming jails, neglected children... and a declining quality of life." Every day, according to the report, Florida needs two miles of new highways, two new classrooms, two new teachers, two more police officers, and another jail cell.

The estimated cost to state and local governments of providing these services is \$52.9 billion. That is a lot of money for a state whose annual budget is only \$18.5 billion. Floridians are dismissive. "That report was never new news, and now it is old news," says Peter S. Rummell, president of Disney Development, the real estate arm of Walt Disney. "People know you've got to pay for the parade. But it is going to be a tough political fight" to raise more money.

Some lip service goes to the need for controls on growth, but businesses count on ever-increasing numbers of customers, and politicians like to see their state loom ever larger in the national consciousness. Nobody wants to stop the parade, and it usually is easier to find economic rationales for a project than to cancel it for "quality of life" reasons. So Floridians adapt. They have adjusted to the effects of growth despite their gripes about traffic jams and commercial sprawl. Only a crisis would cause the state to change, and none looms—yet. Years ago someone hung out a sign on Florida saying, "Come on down." The sign is still up. **E**

The two sides of Miami: Miami Beach's art deco district, lavishly restored down to the vintage car, and Little Havana, across the bay, home to the city's Cuban immigrants.

BRIAN SMITH/MIAMI HERALD (2)

